

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 51(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FOURTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered: 4/10/06

Referred: Rules

Sponsor(s): REPRESENTATIVES MEYER, Holm, Ramras, Wilson, Neuman, Harris, Kelly, Seaton

A BILL

FOR AN ACT ENTITLED

"An Act relating to associations of self-insured employers for purposes of providing workers' compensation coverage and allowing employers who are members of the same trade to form associations for providing self-insurance for workers' compensation coverage; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

*** Section 1.** AS 21 is amended by adding a new chapter to read:

Chapter 77. Associations of Self-insured Employers for Providing Workers' Compensation Coverage.

Sec. 21.77.010. Self-insurance certificates. (a) The director may issue a self-insurance certificate to an association of employers if the association files an application for a certificate and demonstrates that

(1) the members of the association of employers have at least 100 employees in the aggregate;

(2) the members of the association of employers have a tangible net

1 worth of at least \$10,000,000 in the aggregate;

2 (3) the association of employers has paid the annual service fee
3 assessed under AS 23.05.067;

4 (4) each member of the association of employers has a workplace
5 safety rate reduction program in effect under AS 21.89.015;

6 (5) the association of employers has obtained excess insurance
7 coverage in amounts and with coverage required by the director; and

8 (6) the association of employers has filed with the director an
9 indemnity agreement in a form approved by the director jointly and severally binding
10 each member of the association of employers to secure the payment of all
11 compensation due to the members' employees under AS 23.30 and the solvency of the
12 association of self-insured employers.

13 (b) An application for a self-insurance certificate must include

14 (1) the name of the association of employers;

15 (2) the address of the principal office of the association of employers
16 and the location where the books and records of the association will be maintained;

17 (3) the date the association of employers was organized;

18 (4) the name and address of each member of the association of
19 employers;

20 (5) the names of the initial members of the board of directors of the
21 association of employers and the name of the association's initial administrator;

22 (6) a copy of agreements entered into with the administrator of the
23 association of employers and a third-party administrator;

24 (7) a copy of the bylaws of the association of employers;

25 (8) a pro forma financial statement prepared by an independent
26 certified public accountant in accordance with generally accepted accounting
27 principles that shows the financial ability of the association of employers to pay all
28 compensation due to its members' employees and their beneficiaries under AS 23.30;

29 (9) a compiled, reviewed, or audited financial statement prepared by an
30 independent certified public accountant for each member of the association of
31 employers or internal financial statements with at least three years of tax returns or

1 evidence of the ability of the association or its members to provide a solvency bond
2 under AS 21.77.050(c);

3 (10) proof that each member of the association of employers will make
4 the initial payment to the association required under AS 21.77.160 on a date specified
5 by the director.

6 (c) Financial information relating to a member of an association of employers
7 received by the director under this section is confidential and is not a public record.

8 (d) For purposes of this section, "association of employers" means a group of
9 five or more employers who are

10 (1) merchants, craftsmen, or businesses in a similar trade or industry;
11 and

12 (2) members of an Alaska trade association for that trade or industry;
13 the Alaska trade association shall be organized under the laws of this state to promote
14 the common interests of the trade or industry and shall have been in existence for at
15 least five years.

16 **Sec. 21.77.020. Issuance of certificate of self-insurance.** (a) On determining
17 that an association is qualified as an association of self-insured employers, the director
18 may issue a certificate of self-insurance to the association and the association's
19 administrator.

20 (b) A certificate of self-insurance must include, without limitation, the name
21 of the association of self-insured employers, the name of each employer who the
22 director determines is a member of the association at the time the certificate is issued,
23 an identification number assigned to the association by the director, and the date the
24 certificate was issued.

25 (c) A certificate of self-insurance is valid until it is withdrawn by the director
26 or voluntarily terminated by the association.

27 (d) The director may not issue a certificate of self-insurance to an association
28 that has had its certification as an association of self-insured employers involuntarily
29 withdrawn by the director within two years immediately preceding the association's
30 application.

31 (e) The director may not grant a request to cancel a certificate of self-

1 insurance unless the association has insured or reinsured all incurred obligations with
 2 an insurer authorized to do business in the state under an agreement filed with and
 3 approved by the director. The agreement must include coverage for actual claims,
 4 claims incurred but not reported, and expenses associated with those claims.

5 **Sec. 21.77.030. Effect of certificate.** (a) An association of self-insured
 6 employers directly assumes the responsibility for providing compensation due the
 7 employees of the members of the association and the employees' beneficiaries under
 8 AS 23.30.

9 (b) An association of self-insured employers is not required to pay premiums
 10 required of other employers under AS 23.30, but is relieved from other liability for
 11 personal injury to the same extent as other employers.

12 (c) An association of self-insured employers may act on behalf of or for the
 13 benefit of its members to provide for its members' workers' compensation obligations
 14 under AS 23.30. An association of self-insured employers shall have the rights and
 15 obligations of an employer under AS 23.30.

16 (d) The claims of employees and their beneficiaries resulting from injuries
 17 while in the employment of a member of an association of self-insured employers
 18 must be handled in the manner provided under AS 23.30, and the association is subject
 19 to regulations adopted by the Alaska Workers' Compensation Board.

20 **Sec. 21.77.040. Board of directors; members; duties; prohibited acts.** (a)
 21 An association of self-insured employers shall be operated by a board of directors
 22 consisting of at least five members elected by the members of the association for terms
 23 as set out in the bylaws of the association. At least two-thirds of the members of the
 24 board of directors shall be employees, officers, or directors of the members of the
 25 association. An association's administrator, third-party administrator, or an owner,
 26 officer, employee or other person affiliated with the association's administrator or
 27 third-party administrator may not serve as a member of the board of directors. A
 28 member of the board of directors must be a resident of this state or an officer of a
 29 corporation authorized to do business in this state.

30 (b) The board of directors of an association of self-insured employers shall

31 (1) ensure the prompt payment of compensation due under AS 23.30;

1 (2) take all actions necessary to protect the assets of the association;

2 (3) employ full time an administrator to carry out the policies of the
3 board of directors and perform the duties the board delegates to the administrator; an
4 association's administrator may not perform the duties assigned to a third-party
5 administrator;

6 (4) employ a third-party administrator to administer the claims or other
7 obligations of the association during the period of the contract;

8 (5) engage the services of an independent certified public accountant to
9 prepare the statement of financial condition required under AS 21.77.150; and

10 (6) maintain minutes of the meetings of the board and make the
11 minutes available for inspection by the director.

12 (c) The board of directors of an association of self-insured employers may not

13 (1) extend credit to any member of the association for the payment of
14 that member's annual assessment, except under a payment plan approved by the
15 director;

16 (2) borrow money from the association or in the name of the
17 association, except in the ordinary course of its business, without prior approval from
18 the director.

19 **Sec. 21.77.050. Excess insurance, reinsurance contracts, surety, and**
20 **solvency bonds.** (a) Except as otherwise provided in this section, an association of
21 self-insured employers shall

22 (1) maintain a policy of specific and aggregate excess insurance or a
23 reinsurance contract in a form and amount required by the director; excess insurance
24 or a reinsurance contract must be written by an insurer approved by the director;
25 nothing in this paragraph prohibits an association from purchasing secondary excess
26 insurance or reinsurance contracts in addition to the excess insurance or reinsurance
27 contract required under this paragraph;

28 (2) collect an annual assessment of not less than \$300,000 in the
29 aggregate and not less than \$10,000 from each member of the association or an
30 amount necessary to maintain the solvency of the association;

31 (3) except as provided in (4) of this subsection, deposit as security with

1 the director a bond executed by the association as principal and issued by a licensed
2 surety, payable to the State of Alaska, and conditioned on the payment of
3 compensation due to the members' employees under AS 23.30;

4 (4) in lieu of a bond, deposit with the director a like amount of lawful
5 money of the United States or other form of security authorized by the director; if
6 security is provided in the form of a savings certificate, certificate of deposit, or
7 investment certificate, the certificate must state that the amount is unavailable for
8 withdrawal except on order of the director.

9 (b) In addition to complying with the requirements of (a) of this section, an
10 association of self-insured employers shall maintain a combined tangible net worth of
11 all members in the association of at least \$10,000,000 or deposit with the director a
12 solvency bond, in a form prescribed by the director, in an aggregate amount of at least
13 \$10,000,000.

14 (c) The administrator of the association of self-insured employers shall deposit
15 with the director a bond, in an amount determined by the director, executed by the
16 association's administrator as principal, issued by a licensed surety, payable to the
17 State of Alaska, and conditioned on the faithful performance of the administrator's
18 duties.

19 (d) A third-party administrator providing claims services for the association of
20 self-insured employers shall be registered under AS 21.27.630 - 21.27.660 and shall
21 deposit with the director a bond, in an amount determined by the director, executed by
22 the third-party administrator as principal, issued by a licensed surety, payable to the
23 State of Alaska, and conditioned on the faithful performance of the third-party
24 administrator's duties.

25 (e) The director may increase or decrease the amount of a bond or money
26 required to be deposited under this section in accordance with statutory and regulatory
27 requirements for loss reserves in casualty insurance. If the director requires an
28 association of self-insured employers, the association's administrator, or the third-
29 party administrator to increase its deposit, the director may specify the form of the
30 additional security. The association, association's administrator, or third-party
31 administrator shall provide the additional security within 60 days after receiving notice

1 from the director.

2 (f) The security deposited under this section does not relieve an association of
3 self-insured employers from responsibility for the administration of claims and
4 payment of compensation under AS 23.30.

5 **Sec. 21.77.060. Surety and solvency bonds.** A surety or bonding company
6 may not furnish a bond or other form of security required under this chapter for an
7 association of self-insured employers or the association's members unless the surety or
8 bonding company is authorized to do business in the state.

9 **Sec. 21.77.070. Fiscal responsibilities.** (a) The board of directors of an
10 association of self-insured employers is responsible for the money collected and
11 disbursed by the association.

12 (b) The board of directors shall establish

13 (1) a claims account in a financial institution in this state that is
14 approved by the director and that is federally insured; except as provided in (c) of this
15 section, at least 65 percent of the annual assessments collected by the association from
16 its members must be deposited in the claims account to pay claims, expenses related to
17 those claims, costs associated with the association's policy of excess insurance or
18 reinsurance contract, and assessments, payments, and penalties related to the second
19 injury fund (AS 23.30.040);

20 (2) an administrative account in a financial institution in this state that
21 is approved by the director and that is federally insured; the amount of annual
22 assessments collected by the association not deposited in the claims account must be
23 deposited in the administrative account to pay the administrative expenses and to
24 support loss control and occupational safety programs of the association and the
25 members.

26 (c) The director may authorize an association of self-insured employers to
27 deposit less than 65 percent of the associations annual assessments in a claims account
28 if the association presents evidence satisfactory to the director that more than 35
29 percent of the association's annual assessments are needed to maintain programs for
30 loss control and occupational safety.

31 (d) The board of directors may invest the money of the association of self-

insured employers not needed to pay the obligations of the association under AS 23.30 consistent with AS 21.21.

(e) The director shall review the accounts of an association of self-insured employers established under this section at the times necessary to ensure compliance with the provisions of this section.

Sec. 21.77.080. Prohibited relationships. (a) An administrator of an association of self-insured employers or an employee, officer, or director of an association's administrator may not be an employee, officer, or director of a third-party administrator employed by the association or have a direct or indirect financial interest in the third-party administrator.

(b) A third-party administrator or an employee, officer, or director of a third-party administrator may not be an employee, officer, or director of the association's administrator or have a direct or indirect financial interest in the association's administrator.

Sec. 21.77.090. Termination and cancellation of membership in association; coverage following termination or cancellation. (a) A member of an association of self-insured employers may terminate its membership at any time by submitting to the association's administrator a notice of intent to withdraw from the association at least 120 days before the effective date of withdrawal. The notice of intent to withdraw must include a statement indicating that the member has

(1) been certified as a self-insured employer under AS 23.30.090;

(2) become a member of another association of self-insured employers;

or

(3) become insured for liability under AS 23.30 by a private carrier authorized to do business in this state.

(b) The board of directors of an association of self-insured employers may cancel the membership of a member of the association in accordance with the bylaws of the association.

(c) At the expense of the member whose membership is terminated or cancelled, the association of self-insured employers shall maintain coverage for that member for 30 days after the notice is given under (a) of this section unless the

1 association first receives notice from the association's administrator that the member
2 has

3 (1) been certified as a self-insured employer under AS 23.30.090;

4 (2) become a member of another association of self-insured employers;

5 or

6 (3) become insured for liability under AS 23.30 by a private carrier
7 authorized to do business in this state.

8 **Sec. 21.77.100. Notification of additional members, termination or**
9 **cancellation of membership, or change in information.** (a) An association of self-
10 insured employers shall notify the director in writing within 30 days after a member
11 withdraws from the association, a new member joins the association, or the board of
12 directors of the association cancels a membership. In the case of a new member, the
13 notice must include information that the new member is qualified under
14 AS 21.77.010(a) and (b).

15 (b) An association of self-insured employers shall notify the director of any
16 change in the information submitted in its application for a certificate of self-insurance
17 or in the manner of its compliance with AS 21.77.050 within 30 days after the change.

18 **Sec. 21.77.110. Liability for compensation obligations of members.** An
19 association of self-insured employers is liable for the payment of any compensation
20 required to be paid by a member of the association under AS 23.30 during the period
21 of membership. Insolvency or bankruptcy of a member does not relieve the association
22 of liability for the payment of compensation.

23 **Sec. 21.77.120. Examination of books, records, accounts, and assets;**
24 **payment of fees.** The director may examine the books, records, accounts, and assets
25 of an association of self-insured employers as necessary to carry out the provisions of
26 this chapter. The director may charge the association a reasonable fee for conducting
27 the examination.

28 **Sec. 21.77.130. Director as resident agent of association.** The director is
29 considered the resident agent to receive initial legal process authorized by law or court
30 rule to be served on the association of self-insured employers for as long as the
31 association is obligated to pay compensation under AS 23.30.

1 **Sec. 21.77.140. Merger of associations.** An association of self-insured
 2 employers may merge with another association of self-insured employers if the
 3 members of the merging associations are members of the same trade association, the
 4 resulting association assumes in full all obligations of the merging associations, and
 5 the merger is approved by the director. The director may hold a hearing on a proposed
 6 merger on the motion of the director or at the request of a member of the merging
 7 associations.

8 **Sec. 21.77.150. Statement of financial condition.** (a) An association of self-
 9 insured employers shall file with the director an audited statement of financial
 10 condition prepared by an independent certified public accountant. The statement must
 11 be filed within 120 days after the conclusion of the association's fiscal year and must
 12 contain information for the previous fiscal year.

13 (b) The statement required in (a) of this section must be prepared in
 14 accordance with generally accepted accounting principles and must include

15 (1) a statement of reserves for actual claims and expenses, claims
 16 incurred but not reported and expenses associated with those claims, assessments that
 17 are due but not paid, and unpaid debts; unpaid debts must be shown as liabilities;

18 (2) an actuarial opinion regarding reserves, prepared by a member of
 19 the American Academy of Actuaries or another specialist in loss reserves identified in
 20 the annual statement adopted by the National Association of Insurance
 21 Commissioners, including a statement of actual claims and the expenses associated
 22 with those claims and a statement of claims incurred but not reported, and the
 23 expenses associated with those claims.

24 (c) The director may require the filing of other reports necessary to carry out
 25 the provisions of this section, including

26 (1) audits of the payrolls of the members of an association of self-
 27 insured employers;

28 (2) reports of losses; and

29 (3) quarterly financial statements.

30 **Sec. 21.77.160. Calculation of annual assessments.** (a) Except as provided in
 31 (b) of this section, the annual assessment required to be paid by each member of an

1 association of self-insured employers must be

2 (1) calculated by a rate service organization that is a member of the
3 American Academy of Actuaries or another specialist approved by the director; and

4 (2) based on the assessment rate for the industrial classification of that
5 member, adjusted by the member's individual experience.

6 (b) The director may approve a reduction in the annual assessment based on
7 the association's level of expenses and loss experience.

8 (c) If approved by the director, an association of self-insured employers may
9 calculate the annual assessment required to be paid by each member of the association.
10 An assessment calculated by the association must be based on at least three years of
11 the member's individual experience.

12 **Sec. 21.77.170. Annual audits.** An association of self-insured employers shall
13 cause to be conducted at least annually an audit of each member to verify the
14 individual experience of each member of the association, the payroll of each member
15 of the association, and the assessment required to be paid by each member of the
16 association. The audit required under this section must be conducted by a payroll
17 auditor approved by the director. An association shall pay the expenses of an audit
18 required under this section.

19 **Sec. 21.77.180. Objections to industrial classification.** An association of
20 self-insured employers or a member of the association may request a hearing before
21 the director to object to an industrial classification assigned to a member of the
22 association as a result of an audit conducted under AS 21.77.170. If the director
23 determines that the assessment required to be paid by a member of the association is

24 (1) insufficient because of the industrial classification assigned to the
25 member, the director shall order the association to collect from that member any
26 amount required to recover the deficiency;

27 (2) excessive because of the industrial classification assigned to the
28 member, the director shall order the association to pay the member the excess amount
29 collected.

30 **Sec. 21.77.190. Payment of dividends to members.** The board of directors of
31 an association of self-insured employers may, with the approval of the director,

1 declare and distribute dividends to the members of the association if the assets of the
 2 association exceed the amount necessary to pay its obligations and administrative
 3 expenses, carry reasonable reserves, and provide for contingencies. A dividend
 4 declared under this section must be distributed not less than 12 months after the date
 5 of declaration. A dividend may be paid only to an employer who was a member for at
 6 least 12 months before to the date of declaration, and payment of a dividend may not
 7 be conditioned on a member's continuing membership in the association.

8 **Sec. 21.77.200. Plan for payment of annual assessment.** An association of
 9 self-insured employers shall adopt a plan for the payment of annual assessments by the
 10 members of the association. The plan must be approved by the director and must
 11 include a requirement for an initial payment, in advance, of a portion of the annual
 12 assessment due from each member of the association and for the balance of the annual
 13 installment to be paid in quarterly or monthly installments. The advance payment must
 14 be in an amount equal to at least 15 percent of the member's annual assessment.

15 **Sec. 21.77.210. Required reserves.** An association of self-insured employers
 16 shall maintain actuarially appropriate loss reserves. Loss reserves must include
 17 reserves for

- 18 (1) actual claims and the expenses associated with those claims;
- 19 (2) claims incurred but not reported and the expenses associated with
- 20 those claims; and
- 21 (3) reserves for uncollected debts based on the experience of the
- 22 association or other associations.

23 **Sec. 21.77.220. Regulation by division of insurance.** Self-insurance provided
 24 under a certificate issued to an association of self-insured employers may not be
 25 considered insurance for the purpose of any other law of the state and is subject only
 26 to regulations adopted by the director to implement this chapter, except that an
 27 association of self-insured employers shall be considered an insurer for purposes of
 28 AS 23.30.

29 **Sec. 21.77.230. Insufficient assets to pay compensation and maintain**
 30 **reserves.** (a) If the assets of an association of self-insured employers are insufficient
 31 to pay all compensation under AS 23.30 and to maintain the reserves required under

AS 21.77.210, the association shall immediately notify the director and

(1) transfer surplus funds acquired from a previous year to the current year to make up the deficiency;

(2) transfer money from the administrative account of the association to the claims account of the association;

(3) collect an additional assessment from the members of the association in an amount required to make up the deficiency; or

(4) take any other action, approved by the director, to make up the deficiency.

(b) If an association of self-insured employers wishes to transfer surplus funds from one year to another, the association shall first notify the director of the transfer.

(c) The director shall order the association of self-insured employers to make up any deficiency in accordance with (a) of this section if the association fails to do so within 30 days after notifying the director of the deficiency.

(d) An association of self-insured employers is considered to be insolvent if it fails to collect an additional assessment from its members within 30 days after being ordered to do so by the director.

Sec. 21.77.240. Order to cease and desist; penalties. (a) The director may issue an order requiring an association of self-insured employers or a member of an association to cease and desist from engaging in an act or practice found to be in violation of this chapter or a regulation adopted under AS 21.77.300.

(b) If the director determines that an association of self-insured employers or member of an association has violated an order to cease and desist, the director may impose an administrative fine of not more than \$10,000 for each violation of the order, not to exceed an aggregate amount of \$100,000, and may, in addition, withdraw the association's certificate of self-insurance.

Sec. 21.77.250. Administrative fines. The director may impose an administrative fine for each violation of a provision of this chapter or regulation adopted under AS 21.77.300. Except as provided in AS 21.77.240, the amount of the fine may not exceed \$1,000 for each violation or an aggregate amount of \$10,000.

Sec. 21.77.260. Withdrawal of certificate; effect of withdrawal. (a) The

1 director may withdraw the certificate of an association of self-insured employers if

- 2 (1) the association's certificate was obtained by fraud;
- 3 (2) the application for the certificate contained a material
- 4 misrepresentation;
- 5 (3) the association is found to be insolvent;
- 6 (4) the association fails to have five or more members;
- 7 (5) the association fails to pay the costs of an examination or a penalty,
- 8 fee, or assessment required under this chapter;
- 9 (6) the association fails to comply with a provision of this chapter or
- 10 regulation adopted under AS 21.77.300;
- 11 (7) the association fails to comply with an order of the director within
- 12 the time prescribed by law or in the director's order; or
- 13 (8) the association or its third-party administrator misappropriates,
- 14 converts, illegally withholds, or refuses to pay any money to which a person is entitled
- 15 and that was entrusted to the association in its fiduciary capacity.

16 (b) If the director withdraws a certificate of self-insurance, each employer who

17 is a member of the association of self-insured employers remains liable for the

18 employer's obligations incurred before and after the order of withdrawal.

19 (c) Before withdrawing a certificate under this section, the director shall give

20 written notice to the association of self-insured employers by certified mail that the

21 certificate of the association will be withdrawn 10 days after receipt of the notice

22 unless, within that time, the association corrects the conduct set out in the notice as the

23 reason for the withdrawal or submits a written request for a hearing to the director.

24 The director may grant additional time, not to exceed an additional 120 days, before

25 the withdrawal of the certificate if the grounds for withdrawal are based on (a)(4) of

26 this section and the association is financially sound and capable of fulfilling its

27 commitments.

28 (d) The director may not take action under this section unless the director has

29 provided the association of self-insured employers with an opportunity for an informal

30 meeting to discuss and seek correction of conduct that would be grounds for

31 withdrawal of the association's certificate of self-insurance.

1 **Sec. 21.77.270. Retention of security deposit in event of termination.** If the
 2 certificate of an association of self-insured employers is terminated or withdrawn for
 3 any reason, the security deposited under AS 21.77.050 must remain on deposit for at
 4 least 36 months in an amount necessary to secure the outstanding and contingent
 5 liability for compensation payable under AS 23.30. At the expiration of the 36-month
 6 period, or another period the director may prescribe, the director may accept a paid-up
 7 policy of insurance in a form approved by the director in lieu of the previously
 8 deposited security.

9 **Sec. 21.77.280. Insolvency; termination of liability on surety bond; effect**
 10 **of termination of surety bond.** (a) If an association of self-insured employers
 11 becomes insolvent under AS 21.77.230, institutes any voluntary proceeding under the
 12 bankruptcy laws of the United States or is named in any involuntary proceeding under
 13 those laws, makes a general or special assignment for the benefit of creditors, or fails
 14 to pay compensation due under AS 23.30, after an order for the payment of a claim
 15 becomes final, the director may, after giving at least 10 days' notice to the association
 16 and its insurer or guarantor, use money or interest on securities, sell securities, or
 17 institute legal proceedings on a surety bond deposited with the director to the extent
 18 necessary to make the payment.

19 (b) A surety providing a surety bond under AS 21.77.050 may terminate
 20 liability on its surety bond by giving the director and the association of self-insured
 21 employers, the association's administrator, or the third-party administrator 90 days'
 22 written notice. Termination does not limit liability that was incurred under the surety
 23 bond before the termination. If the association fails to requalify as an association of
 24 self-insured employers on or before the termination date, the director shall withdraw
 25 the association's certificate of self-insurance, effective on the date the termination
 26 becomes effective.

27 **Sec. 21.77.290. Judicial review.** A party aggrieved by a decision of the
 28 director under this chapter may seek judicial review in accordance with applicable
 29 court rules.

30 **Sec. 21.77.300. Regulations.** The director may adopt regulations to implement
 31 the provisions of this chapter, including a regulation defining "tangible net worth."

1 **Sec. 21.77.399. Definitions.** In this chapter,

2 (1) "association of self-insured employers" means an association of
3 employers that has been granted a certificate of self-insurance under AS 21.77.010;

4 (2) "industrial classification" means the industry group code specified
5 in the most current version of the North American Industry Classification System,
6 United States in accordance with the established classification practices found in the
7 most current version of the North American Industry Classification System manual
8 prepared by the United States Office of Management and Budget.

9 (3) "third-party administrator" means a person under contract with an
10 association of self-insured employers to administer, from one or more offices in this
11 state, all claims for the association arising under AS 23.30 and maintain records
12 concerning those claims.

13 * **Sec. 2.** AS 23.05.067(a) is amended to read:

14 (a) Each insurer providing workers' compensation insurance, **each association**
15 **of self-insured employers,** and each employer who is self-insured or uninsured for
16 purposes of AS 23.30 in this state shall pay an annual service fee to the department for
17 the administrative expenses of the state for workers' safety programs under AS 18.60
18 and the workers' compensation program under AS 23.30 as follows:

19 (1) for each employer **or association of self-insured employers,**

20 (A) except as provided in (b) of this section, the service fee
21 shall be paid each year to the department at the time that the annual report is
22 required to be filed under AS 23.30.155(m) or (n); and

23 (B) the service fee is 2.9 percent of all payments reported to the
24 **division of workers' compensation** [ALASKA WORKERS'
25 COMPENSATION BOARD] under AS 23.30.155(m) or (n), except second
26 injury fund payments; and

27 (2) for each insurer, the director of the division of insurance shall,
28 under (e) of this section, deposit from funds received from the insurer under
29 AS 21.09.210 a service fee of 1.82 percent of the direct premium income for workers'
30 compensation insurance received by the insurer during the year ending on the
31 preceding December 31, subject to all the deductions specified in AS 21.09.210(b).

1 * **Sec. 3.** AS 23.05.067(b) is amended to read:

2 (b) An employer or association of self-insured employers who is required to
3 pay an annual service fee under (a) of this section may elect to pay in yearly
4 increments over a five-year period the portion of the service fee due under (a) of this
5 section as a result of a settlement of over \$50,000 approved under AS 23.30.012. An
6 election under this subsection must be made in the first year that a service fee would
7 be due as a result of the settlement. The employer or association of self-insured
8 employers shall notify the department of an election under this subsection. If an
9 election is made, payment of each yearly increment that is due shall be made at the
10 time the annual report is required to be filed under AS 23.30.155(m) or (n).

11 * **Sec. 4.** AS 23.05.067(d) is amended to read:

12 (d) If an employer or association of self-insured employers who is required
13 to pay an annual service fee under this section does not pay the required amount of the
14 service fee by the time specified in this section, the employer or association of self-
15 insured employers shall pay a civil penalty of \$100 for the first day the payment is
16 late and \$10 a day for each additional day the payment is late. The civil penalty under
17 this subsection is in addition to any civil penalties imposed for late filings of reports
18 under AS 23.30.155(m).

19 * **Sec. 5.** AS 23.05.067(h) is amended to read:

20 (h) The department shall grant a credit against the service fee imposed under
21 (a)(1) of this section to an employer or association of self-insured employers if (1)
22 the employer or association of self-insured employers applies to the department for
23 the credit on a form prescribed by the department; (2) the employer or association of
24 self-insured employers provides proof that the employer or a member of the
25 association of self-insured employers has paid a premium tax imposed under
26 AS 21.09.210 on an insurance policy; and (3) workers' compensation claims have been
27 paid under the insurance policy described in (2) of this subsection and the claims are
28 subject to the service fee imposed under (a) of this section. The credit allowed under
29 this subsection is equal to the amount of the premium tax paid by the employer or by
30 a member of the association of self-insured employers under the insurance policy,
31 may not exceed the service fee imposed under (a) of this section, and only applies to

1 premium taxes paid by the employer on or after January 1, 2000, or by a member of
2 the association of self-insured employers on or after the effective date of this bill
3 section.

4 * **Sec. 6.** This Act takes effect immediately under AS 01.10.070(c).